



WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles CHIEF EXECUTIVE OFFICE

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January 27, 2010

To: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name of the Chief Executive Officer.

REPORT ON EXCISE TAX ON EMPLOYER-SPONSORED INSURANCE PLANS IN HEALTH CARE REFORM (ITEM 65-B – AGENDA OF JANUARY 19, 2010)

This memorandum is in response to your January 19, 2010 Board order directing the Chief Executive Officer to report back on the compromise relating to the excise tax on "high-cost" employer-sponsored health insurance plans contained in the Senate health care reform bill and its implications for the County.

Recent press reports had indicated that a compromise was reached on an excise tax on such high-cost health plans. The County's Washington, D.C. advocate on health issues, however, advises that final agreement has not yet been reached on health care reform legislation, including not on excise tax language.

As previously reported to your Board on January 7, 2010, under the 40 percent excise tax, which is in the Senate bill, excise taxes paid on the health insurance premiums of active employees would grow from an estimated \$4.18 million in 2013 to \$158.49 million in 2019. In addition, excise taxes on retired employee health insurance premiums would grow from an estimated \$17.66 million in 2013 to \$98.87 million in 2019. The House version would not impose any excise tax on health insurance premiums.

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According to news articles, the excise tax "compromise" included the following changes to the previous Senate version:

- Increases the threshold for health insurance premiums which would be subject to the 40 percent excise tax, beginning in 2013, from \$8,500 to \$8,900 for single coverage and from \$23,000 to \$24,000 for family coverage;
- Removes the cost of dental and vision benefits from the calculation;
- Allows the tax thresholds to be adjusted upward if medical costs grow faster than expected before 2013; and
- Exempts state and local government plans from the excise tax until 2018.

All of the above changes to the Senate version would reduce or delay the potential impact of the excise tax on the County and its employees. The exemption on state and local plans from the excise tax until 2018 would have the greatest positive impact, by far, on the County. The impact of allowing the tax thresholds to be adjusted upward if medical costs grow faster than expected before 2013 will depend on the methodology used for making such adjustments – a methodology not described in any news articles.

As reported previously, the impact of the excise tax would grow over time to the extent that health insurance premium costs grows at a faster rate than the Consumer Price Index for urban consumers (CPI-U) plus one percentage point, which would be used to adjust the tax thresholds annually after 2013. The reported compromise does not change how tax thresholds are adjusted annually after 2013. If the County's health insurance premiums increase annually at a faster rate than the tax threshold after 2013, then, under the reported compromise, beginning in 2018, the County would face steadily growing excise taxes over the years. In short, the primary long-term effect of the compromise would be to delay the impact of the excise tax on the County.

This office will advise your Board if or when health care reform legislation is finalized. If you have any questions, your staff can contact Ryan Alsop at (213) 974-1100.

WTF:RA
MT:lm

c: Executive Office, Board of Supervisors
County Counsel
Department of Human Resources
Los Angeles County Employees Retirement Association